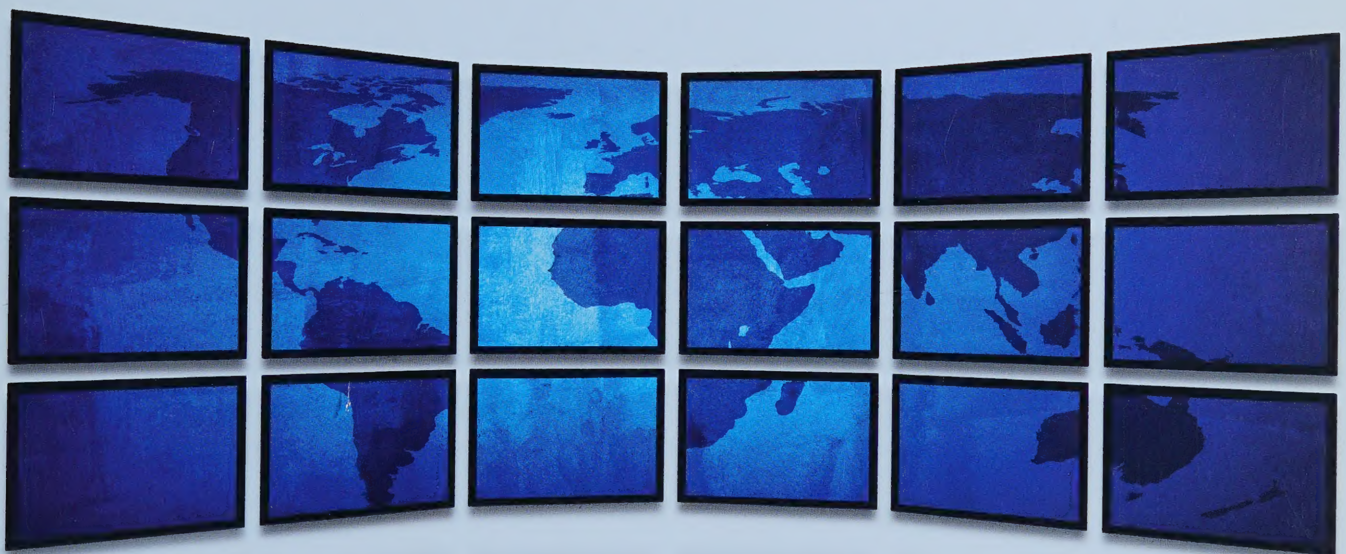
annual report | 2007



idc

Imaging Dynamics 2007 Annual Report

IDC (Imaging Dynamics Company) is a medical technology company and innovative force in the fast-growing field of digital radiography (DR) technology. IDC's X-Series of direct capture technology replaces conventional film-based X-rays and provides a cost-effective alternative to cassette based film or computed radiography (CR) systems.

Each IDC DR solution provides high resolution radiographic images in the digital format required for today's electronic medical record networks, all without the use of film, environmentally harmful chemicals, cassettes or expensive imaging plates. In addition to its number one ranking for customer service by MD Buyline, IDC is the recipient of the 2007 Frost & Sullivan Technology Innovation Award and is among the 2007 Deloitte Technology Fast 500, which ranks the fastest growing technology, media, telecommunications and life sciences companies in North America.

IDC is based in Calgary, Alberta, Canada.

MANAGEMENT'S DISCUSSION AND ANALYSIS
March 13, 2008

Following is management's discussion and analysis (MD&A) of the results of operations for Imaging Dynamics Company Ltd. (IDC or the Company) for the year ended December 31, 2007 and its financial position as at December 31, 2007. This MD&A should be read in conjunction with the Audited Consolidated Financial Statements and the related consolidated notes thereto. For additional information and details, readers are referred to the quarterly financial statements and quarterly MD&A for 2007 and the Company's Annual Information Form (AIF), all of which are published separately and are available at www.sedar.com.

This MD&A is intended to provide readers with the information that management believes is required to gain an understanding of IDC's current results and to assess the Company's future prospects. Accordingly, certain sections of this report contain forward-looking statements that are based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document, as well as in the AIF, and that could have a material impact on future prospects. Readers are cautioned that actual events and results will vary.

In this MD&A we describe certain income and expense items that are unusual or non-recurring. These terms are not defined by generally accepted accounting principles (GAAP). Our usage of these terms may vary from the usage adopted by other companies. We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results. In addition, terms such as income before interest, taxes, depreciation and amortization (EBITDA) and backlog are not defined by GAAP, and our use of such terms or measurement of such items may vary from that of other companies. Where relevant, and particularly for earnings-based measures, we provide tables in this document that reconcile non-GAAP measures used to amounts reported on the face of the consolidated financial statements.

Introduction

IDC is a medical technology Company that has been an innovative force in the fast-growing field of digital radiography (DR) equipment. IDC offers an extensive family of products, which can be found in many leading medical and healthcare facilities, throughout 38 countries worldwide. IDC was founded in May of 1995. Our corporate headquarters is located in Calgary, Alberta, Canada. The Company is publicly traded on the Toronto Stock Exchange under the symbol IDL.

Special Note Regarding Forward Looking Information

Certain statements in the MD&A, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. These can include, without limitation, statements based on current expectations involving a number of risks and uncertainties related to all aspects of the medical imaging industry. These risks and uncertainties include, but are not restricted to, continued increased demand for the Company's products, the Company's ability to maintain its technological and competitive advantages in the field of digital radiography, the Company's ability to attract and retain key employees, the enforceability of the Company's patents, the Company's ability to raise capital on acceptable terms when needed, and the availability of key components. These uncertainties may cause actual results to differ from information contained herein. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. These forward-looking statements are based on the estimates and opinions of Management on the dates they are made and are expressly qualified in their entirety by this notice. The reader is cautioned not to rely on these forward looking statements. The Company assumes no obligation to update forward-looking statements should circumstances or Management's estimates or opinions change.

Selected Financial Information and Financial Summary

	Three Months Ended		Twelve Months Ended	
	December 31 2007	December 31 2006	**December 31 2007**	December 31 2006
Revenues	**$ 8,263,103**	$ 12,533,867	**$ 32,446,401**	$ 39,030,402
Gross Profit	**$ 2,116,715**	$ 4,247,937	**$ 11,677,315**	$ 14,047,378
Net loss before other items	**$ (4,077,981)**	$ (4,229,361)	**$ (12,398,782)**	$ (7,888,357)
Net loss	**$ (6,027,604)**	$ (10,588,446)	**$ (14,265,372)**	$ (14,006,846)
Net loss per share before other items				
Basic and diluted	**$ (0.07)**	$ (0.07)	**$ (0.21)**	$ (0.14)
Net loss per share				
Basic and diluted	**$ (0.10)**	$ (0.19)	**$ (0.24)**	$ (0.25)

Summary of Quarterly Results

	2007 YTD	2007 Q4	2007 Q3	2007 Q2	2007 Q1
Revenue	**$32,446,401**	**$8,263,103**	**$7,124,229**	**$9,274,939**	**$7,784,130**
Gross Profit	**11,677,315**	**2,116,715**	**2,561,315**	**3,844,742**	**3,154,543**
Gross Profit %	**36%**	**26%**	**36%**	**41%**	**36.5%**
Net loss before other items	**(12,398,782)**	**(4,077,981)**	**(3,564,109)**	**(2,651,929)**	**(2,104,763)**
Net loss	**(14,265,372)**	**(6,027,604)**	**(3,534,009)**	**(2,627,362)**	**(2,076,397)**
Net loss per share					
- Basic and diluted	**(0.24)**	**(0.10)**	**(0.06)**	**(0.04)**	**(0.04)**
Total Assets	**31,048,875**	**31,048,875**	**32,722,814**	**37,533,767**	**42,079,499**
Long-term Liabilities	**24,800**	**24,800**	**42,732**	**51,463**	**60,112**
Weighted average number of common shares outstanding	**58,971,360**	**59,300,323**	**59,282,193**	**58,814,890**	**58,475,854**

	2006 YTD	2006 Q4	2006 Q3	2006 Q2	2006 Q1
Revenue	$39,030,402	$12,533,867	$7,343,979	$8,924,481	$10,228,075
Gross Profit	14,047,378	4,247,937	3,066,099	2,998,092	3,735,250
Gross Profit %	36%	34%	42%	34%	37%
Net loss before other items	(7,888,357)	(4,229,361)	(2,034,815)	(1,390,943)	(233,238)
Net loss	(14,006,846)	(10,588,446)	(1,970,499)	(1,284,778)	(163,123)
Net loss per share					
- Basic and diluted	(0.25)	(0.19)	(0.03)	(0.02)	0.00
Total Assets	47,382,391	47,382,391	55,683,036	53,458,775	50,643,091
Long-term Liabilities	63,613	63,613	91,827	99,725	107,542
Weighted average number of common shares outstanding	57,043,359	57,043,359	58,387,154	58,106,419	56,541,349

Results of Operations

Net Income

Net loss before interest and other items for the fourth quarter ended December 31, 2007 was $4,077,981or $0.07 loss per share compared to $4,229,361 or $0.07 loss per share for the same period last year. Net loss before interest and other items for the year ended December 31, 2007 was $12,398,782 or $0.21 loss per share, compared to $7,888,357 or $0.14 loss per share for the same period last year.

Net loss for the fourth quarter ended December 31, 2007 was $6,027,604 or $0.10 loss per share compared to $10,588,446 or $0.19 loss per share for the same period last year. Net loss for the year ended December 31, 2007 was $14,265,372 or $0.24 loss per share, compared to $14,006,846 or $0.25 loss per share for the same period last year.

Due to a loss position in fiscal 2007 and 2006, the calculation of diluted loss per share is anti-dilutive.

The net loss for the years ended December 31, 2007 and 2006 resulted primarily from lower gross profits, increased operating costs, allowance for doubtful receivables, foreign exchange expense and write down of inventory.

Sales

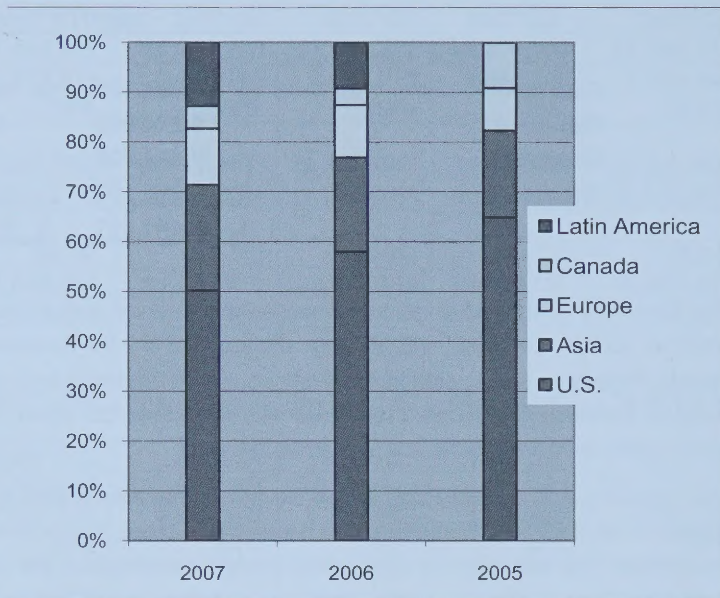
	2007	2006	2005
Quarter 1	**$ 7,784,130**	$ 10,228,075	$ 5,064,178
Quarter 2	**9,274,939**	8,924,481	7,414,553
Quarter 3	**7,124,229**	7,343,979	8,156,334
Quarter 4	**8,263,103**	12,533,867	8,243,604
	$ 32,446,401	$ 39,030,402	$ 28,878,669

The Company continued to gain widespread acceptance and accolades for its technology during 2007. In fact in Q4 2007, MD Buyline ranked IDC #1 for customer satisfaction in the US DR market. However, due to significant changes in management and operations, Q4 2007 sales had reduced attention and focus. Combined with the lower US dollar, Q4 2007 sales decreased by 35%, when compared to the same quarter last year.

The following is a detailed discussion on the management and operational changes that were started in Q4 2007 and that had a direct impact on sales. Firstly, a new leadership team has been assembled. The new team is significantly more experienced in the industry and has a track record of being able to manage growth effectively both from a top line and bottom line standpoint. The sales team remains stable and committed and new revenue goals and profitability targets have been set. The second significant change was the introduction in Q3 2007 of the X-Series and the phase out of the Xplorer and Xaminer product line. The new X-Series provides better dose efficiency, improves image quality by eliminating pixel saturation and takes advantage of the latest developments in CCD technology and lower pricing. The third change implemented was a shift from a “Build to Forecast” manufacturing model to a “Build to PO” model. The Build to PO model institutes a lead time from the date purchase order is received and product is shipped which slows down the revenue booking but has a number of advantages. The new process has significantly reduced the Company’s cash to cash cycle, improved business processes, reduced inventory risk and significantly reduced accounts receivable risk. Finally, the Company invoices predominantly in US dollars and the US – Canadian dollar exchange rate did not help during 2007. During 2007, US dollar devalued vs. Canadian dollar by approximately 15%. (Noon US – Canada exchange rate on December 31, 2007 was 0.9881 compared to 1.1653 at December 31, 2006 – *source Bank of Canada*). All these factors individually and collectively impacted total sales and gross profits for 2007. Management recognizes that many of the changes had an adverse short term impact on sales and gross margins, especially in Q4 2007, but strongly believes that the changes were necessary and will result in a much stronger Company going forward.

The following table describes the geographic breakdown of the booked sales:

The United States (US) remained the dominant market for IDC during 2007. The US accounted for 50% of total sales in 2007 versus 58% in 2006. Asia remained the second largest market and increased to 21% in 2007 from 19% in 2006. Europe remained at 11% in 2007 and 2006. Canada increased to 5% of total sales in 2007 versus 3% in 2006. Latin America increased to 13% of total sales compared to 9% in 2006.



Distribution strategy

IDC relies heavily on dealers, distributors and OEM partners for the sales of its products. Management is currently in the process of rationalizing its Channels to ensure well qualified and credit worthy dealers are retained while culling dealers that may have been brought in for only one deal in the past. The following table describes IDC's distribution and sales strategy in the different geographies:

Country	# of Dealers 2007	# of Dealers 2006	# of OEM Partners 2007	# of OEM Partners 2006
Canada	2	2	0	0
USA	40	41	3	5
Asia / Pacific	12	10	6	6
Europe	7	8	4	4
Latin America	11	12	3	3
Middle East	13	13	0	0
Other	3	3	0	0
Total	88	89	16	18

Gross Profit

	2007	2006	2005
Quarter 1	$ 3,154,543	$ 3,735,250	$ 2,237,235
Quarter 2	3,844,742	2,998,092	3,174,046
Quarter 3	2,561,315	3,066,099	3,366,114
Quarter 4	2,116,715	4,247,937	3,977,178
	$ 11,677,315	$ 14,047,378	$ 12,754,573

Gross profit for fiscal 2007 totaled $11,677,315 on $32,446,401 of sales for an average gross profit of 36%. Gross profit for fiscal 2006 was $14,047,378 on $39,030,402 of sales for an average gross profit of 36%.

Gross profit for the fourth quarter ended December 31, 2007 totaled $2,116,715 on $8,263,103 of sales for an average gross profit of 26%. Gross profits for the fourth quarter ended December 31, 2006 were $4,247,937 on $12,533,867 of sales for an average gross profit of 34%.

Gross profits for 2007 were lower due to the weakened U.S. dollar which had an adverse impact on gross revenues of approximately $4.5 million if 2006 exchange rates were to be applied. In addition, due to the previous “Build to Forecast” model, excess inventory was purchased in prior periods when the U.S. dollar was stronger. This inventory was consumed during the current period which resulted in higher cost of sales and contributed to lower gross profits. During Q3 2007 the Company launched its new X-Series products. X-Series products have replaced Xplorer and Xaminer product line; however existing Xplorer and Xaminer installations will continue to be supported by the Company and were sold at a discount after the introduction of X-Series further impacting gross profits. Also during the fourth quarter of 2007, there was a year-end inventory adjustment of approximately $0.5 million that was recorded as cost of sales. The Company expects to return gross profits to the low 40% range by Q2 2008 as past inventories should be used up by then.

Sales and Marketing Expenses

	2007	2006	2005
Quarter 1	$ 1,791,521	$ 1,747,961	$ 802,647
Quarter 2	1,800,508	1,478,446	858,600
Quarter 3	1,684,343	2,290,015	1,006,359
Quarter 4	2,664,966	3,675,631	1,721,956
	$ 7,941,338	$ 9,192,053	$ 4,389,562

Selling and marketing expenses consist principally of salaries and other costs associated with the Company’s sales force and marketing activities in the form of advertising, promotions and trade shows and post sales support and service.

Sales and marketing expenses for fiscal 2007 decreased by $1,250,715 compared to the same period last year. Sales and marketing expenses for fiscal 2007 as a percentage of sales were unchanged at 24%, when compared with fiscal 2006.

Sales and marketing expenses for the fourth quarter ended December 31, 2007 decreased by $1,010,665 compared to the same period last year. Sales and marketing expenses for the fourth quarter of 2007 as a percentage of sales were 32% compared to 29% for the same period last year.

The overall decrease in sales and marketing expenses is mainly due to cost reduction efforts initiated by the Company during 2007 to reduce expenses and also partially due to the weakened U.S. dollar as most of the sales and marketing expenses are incurred in U.S. dollars.

General and Administrative Expenses

	2007	2006	2005
Quarter 1	**$ 1,189,845**	$ 827,015	$ 368,392
Quarter 2	**1,404,284**	957,502	499,130
Quarter 3	**974,160**	1,007,927	694,756
Quarter 4	**1,168,052**	1,078,192	733,958
	$ 4,736,341	$ 3,870,636	$ 2,296,236

General and administrative expenses consist primarily of personnel costs and overhead expenses relating to the Company's human resources, finance, legal, regulatory and administrative functions.

General and administrative expenses for the fourth quarter ended December 31, 2007 increased by $89,860 compared to the same period last year. General and administrative expenses increased in the first half of 2007 as a direct result of an increase in head count and salaries. The Company implemented cost and staff reduction in Q3 resulting in lower expenses but in Q4 the Company experienced higher professional (audit, legal) and regulatory fees as well as senior contractors/consultants were hired to support the Company's operations during the management and operational changes. The Company expects to phase out most of these contractors/consultants by the second quarter of 2008.

Research and Development Expenses

	2007	2006	2005
Quarter 1	**$ 575,867**	$ 532,014	$ 357,646
Quarter 2	**563,346**	527,111	313,408
Quarter 3	**852,392**	537,628	249,174
Quarter 4	**645,217**	763,407	621,141
	$ 2,636,822	$ 2,360,160	$ 1,541,369

Research and development (R&D) expenses include personnel and related equipment costs to develop and support the Company's products. The Company expenses all research costs as they are incurred. Development costs are only capitalized if they meet the criteria set out by generally accepted accounting principles. The Company believes that investments in research are required to remain competitive.

R&D expenses for fiscal 2007 increased by $276,662 compared to the same period last year. Research and development expenses for the fourth quarter ended December 31, 2007 was $645,217 compared to $763,407 for the same period last year.

The Company successfully launched the X-Series product line during the third quarter of 2007. X-Series product line is a significant improvement from Xplorer and Xaminer product line. Most of the increase in R&D expenses is related to new regulatory and certification costs to launch the X-Series products internationally.

For the year ended December 31, 2007, the Company did not capitalize any development costs compared to $1,182,349 for the same period last year.

During the fourth quarter of 2006, the Company reviewed the carrying value of deferred development costs. Due to the intended launch of X-Series product line in 2007, $1,663,507 of deferred development costs were written down in 2006. The balance of the deferred development costs were fully amortized during 2007.

Production and Manufacturing

	2007	2006	2005
Quarter 1	$ 432,519	$ 348,163	$ 230,427
Quarter 2	360,113	402,566	243,998
Quarter 3	472,293	539,825	220,049
Quarter 4	385,970	557,069	827,250
	$ 1,650,895	$ 1,847,623	$ 1,521,724

Production and manufacturing expenses for fiscal 2007 decreased by $196,728 compared to the same period last year. For the fourth quarter ended December 31, 2007 production and manufacturing expenses decreased by $173,099 compared to the same period last year. Production and manufacturing has been completely outsourced during 2007. As a result production and manufacturing costs for 2007 are lower than the same period last year.

Warranty Expense

	2007	2006	2005
Quarter 1	$ 237,420	$ 240,582	$ 89,074
Quarter 2	307,722	203,797	126,033
Quarter 3	87,467	158,307	165,358
Quarter 4	61,019	287,747	274,046
	$ 693,628	$ 890,433	$ 654,511

An estimate of warranty expense is booked at the time of sale and a reserve is set up on the balance sheet. Warranty expense for fiscal 2007 was $693,628, down from the $890,433 recorded in the preceding fiscal year. As a percentage of sales warranty expenses remained consistent at around 2% for fiscal 2007 and 2006. Warranty expense for the fourth quarter ending December 31, 2007 was $61,019 compared to $287,747 for the same period last year.

Cost of parts issued under warranty is adjusted against warranty liability and on expiry of warranty period the unused warranty reserve is released from warranty liability. The Company

has an industry leading warranty inclusion on its proprietary products. The Company reviews its estimate periodically to determine if an adjustment is necessary.

During 2007, $128,000 of the warranty reserve has been reversed as the warranty period has expired.

Stock Based Compensation

	2007	2006	2005
Quarter 1	$ 391,108	$ 253,665	$ 78,787
Quarter 2	428,102	302,786	109,717
Quarter 3	271,315	375,719	139,823
Quarter 4	247,786	661,093	260,305
	$ 1,338,311	$ 1,593,263	$ 588,632

The Company follows the Canadian Institute of Chartered Accountants Handbook Section 3870 "Stock based compensation and Other Stock-based payments" which established standards for the recognition, measurement and disclosure of stock-based compensation. Under this section, stock options are measured and recognized using the fair value based method. The fair value is determined using the Black-Scholes option pricing model and certain assumptions. Stock based compensation expense decreased by $254,952 to $1,338,311 for the year ended December 31, 2007 from $1,593,263 at December 31, 2006. This decrease is due to the decrease in the weighted average fair value of options which was $0.84 for the year ended December 31, 2007 compared to $2.29 at December 31, 2006.

During the year, the Company granted 1,222,100 stock options with a weighted average exercise price of $1.00 compared to a grant of 1,594,000 stock options with a weighted average exercise price of $2.88 for the same period last year. The Company recognizes stock-based compensation expense over the vesting period. It is Company policy to issue stock options to all full time employees.

Amortization

	2007	2006	2005
Quarter 1	$ 345,391	$ 159,861	$ 88,331
Quarter 2	337,088	166,589	95,083
Quarter 3	344,254	287,615	110,873
Quarter 4	479,993	305,263	196,796
	$ 1,506,726	$ 919,328	$ 491,083

Amortization expenses for fiscal 2007, increased by $587,398 compared to the same period last year. The increases were largely attributable to an increase in amortization of deferred development costs and commencement of amortization of Enterprise Resource Planning (ERP) software costs during 2007.

Interest Expense

	2007	2006	2005
Quarter 1	$ 109,550	$ 60,829	$ 14,391
Quarter 2	135,670	76,867	26,810
Quarter 3	114,070	66,996	40,764
Quarter 4	50,160	125,033	48,930
	$ 409,450	$ 329,725	$ 130,895

Interest expense for fiscal 2007 increased by $79,725 compared to the same period last year. The majority of the interest expense relates to interest paid on the Company's line of credit. The line of credit interest rate floats based on the prime rate. During Q4 2007, $2.4 million of the line of credit was paid down and accordingly interest expense for Q4 2007 has decreased.

Foreign Exchange Loss / (Gain)

	2007	2006	2005
Quarter 1	$ 186,085	$ (201,592)	$ (173,844)
Quarter 2	933,478	273,371	(13,411)
Quarter 3	552,189	(163,128)	234,774
Quarter 4	(324,119)	(70,476)	(44,665)
	$ 1,347,633	$ (161,825)	$ 2,854

Foreign exchange loss for fiscal 2007 increased by$1,509,458 compared to the same period last year. The Company's foreign exchange hedges were not sufficient to cover the entire foreign exchange exposure especially due to the steep decline of U.S. dollar since the end of 2006. The Company entered into forward contracts to normalize the impact of the foreign currency fluctuations. The Company was limited in the amount of forward contracts it could enter into which was restricted to the facility currently available with the bank. As at December 31, 2007 all forward contracts had matured. Steps have been taken in 2008 to manage this exposure by entering into hedge arrangement and options.

Inventory write-down

Primarily due to introduction of X-Series product line during 2007, Xplorer and Xaminer products in inventory were written down along with other items which were obsolete and slow moving. Inventory write-down for 2007 totaled $1,975,764 compared to a write-down of $4,776,213 for the same period last year.

Contractual obligations

The following table summarizes our contractual obligations as at December 31, 2007, and the effect such obligations are expected to have on our liquidity and cash flows in future years. The table excludes amounts already recorded on the consolidated balance sheet as current liabilities and certain other purchase obligations discussed below:

	2008	2009	2010
Operating leases	$ 55,162	$ 53,134	$ 36,624
Facility and auto leases	276,785	136,587	-
Other contractual obligations	12,267,627	1,616,835	-

Purchase orders for third party components, finished goods and other goods and services are not included in the above table. Management is not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. For the purpose of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

The Company has entered into contracts for other outsourced services. However, the obligations under these contracts are not significant and the contracts generally contain clauses allowing for cancellation without significant penalty. The expected timing of payment of the obligations discussed above is estimated based on current information. The timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services, or for some obligations, changes to agreed-upon amounts.

Contingencies

The Company has the following contingencies as at December 31, 2007:

(b) Bank guarantee for US$148,700 was issued on July 24, 2007 in relation to an international tender contract. The bank guarantee will expire on December 31, 2010 on completion of the performance as per the terms of the contract.

(c) Bank guarantee for US$43,000 was issued on August 29, 2007 in relation to an international tender contract. The bank guarantee has expired on January 15, 2008.

(d) Bank guarantee for US$220,650 was issued on December 27, 2007 in relation to an international tender contract. The bank guarantee will expire on June 30, 2008 on completion of the performance as per the terms of the contract.

(e) The Company is involved in a legal claim associated with normal operations. This claim although unresolved at the current time, in management's opinion, is not expected to have a material impact on the financial position or results of operations of the Company. The Company has filed a counter claim to defend the statement of claim.

(f) A general security agreement has been issued by the Company to a Vendor which is secondary to the bank (see Note 8).

Off-balance Sheet Arrangements

The Company does not have any transactions, arrangements or other relationships with unconsolidated entities that are likely to affect its operating results, its liquidity or capital resources. The Company has no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity or market or credit risk support, engage in leasing, hedging, research and development services, or other relationships that expose the Company to liability that is not reflected on the face of the consolidated financial statements.

Liquidity and Capital Resources

The Company's gross cash and cash equivalents totaled $1,460,554 at December 31, 2007, a decrease of $4,440,638 over the $5,901,192 available at December 31, 2006. The Company has used its cash to pay down its credit facility and as a result, the Company's net cash position declined by $1,403,849 from $1,604,159 at December 31, 2006 to $200,310 at December 31, 2007. Working capital was $11,778,057 at December 31, 2007, a decrease of $11,870,784 over the $23,648,841 of working capital at December 31, 2006. The biggest improvement in working capital was a significant reduction in receivables and inventory.

The Company has a revolving credit facility with a Canadian Chartered Bank for $4.1 million, of which only $1.26 million has been drawn. The credit facility can be utilized as overdraft or in the form of banker's acceptances. The facility allows for a borrowing limit up to the aggregate of 75% of accounts receivable acceptable to the bank and 90% of Export Development Canada insured accounts. Interest is charged at the bank's prime plus 2% on overdraft with fees on letters of guarantee and banker's acceptances quoted at the time of issue plus a stamping fee of 3.5% per annum.

The agreement also includes a foreign exchange demand revolving line of US$420,000. The Company is entitled to enter into forward exchange contracts up to an aggregate of US$2,000,000, with a maximum of 12 months, of which, US$420,000 is available through the line of credit.

The revolving credit facility is secured by a general security agreement, first ranking from the Company in favor of the bank, assignment/endorsement by the Company to the bank of all insurance proceeds and security over cash, credit balances and deposit endorsements.

As at December 31, 2007, $1,260,244 remained outstanding on the line of credit compared to $4,297,033 at December 31, 2006, a decrease of $3,036,789. The Company believes that it will continue to be able to access sufficient working capital to meet its current and future anticipated requirements.

Outstanding Share Capital

IDC is authorized to issue an unlimited number of common shares and an unlimited number of non-voting redeemable preferred shares without demand or par value and which do not deem an entitlement to dividends. The following securities of IDC were outstanding as at December 31, 2007:

- 59,300,323 common shares;
- 5,342,218 stock options.

Shareholder Rights Plan

The Company has a shareholder rights plan ("the Plan") as a means of providing time for the Board of Directors to pursue alternatives to maximize value for all holders of common shares and to prevent Common Shareholders from being coerced into accepting an unfair bid. Plan was not adopted in response to, or in anticipation of, any knows take-over bid.

Pursuant to the Plan, the Board of Directors authorized and declared the distribution of one Right in respect of each common share outstanding. Each Right entitles the registered holder thereof to purchase from the Company one common share at an exercise price calculated subject to adjustment and certain anti-dilution provisions.

Accounts Receivable

Accounts receivable decreased to $12,219,209 at the end of the 2007 from $21,222,060 at December 31, 2006, a decrease of $9,002,851 on $32,446,401 in year-to-date sales. The Company had trade day's sales outstanding (DSO) for the 2007 of 137 compared to 198 for 2006. A summary of DSO by quarter is as follows:

	Year	Q4	Q3	Q2	Q1
DSO 2007	**137**	**136**	**179**	**163**	**230**
DSO 2006	**198**	**155**	**281**	**228**	**189**

The Company monitors aging of accounts receivable on a regular basis and has established a process to collect overdue receivables on a timely and effective manner. The Company implemented new procedures in processing customer purchase orders during 2007 and carries out a credit and payment history review before processing the orders. The result of this can be seen in the dramatic reduction in the DSO number. The Company believes that these new credit review measures are working well and expect a further reduction in the DSO number.

Subsequent to year end and as at date of the MD&A, the Company has already collected almost half of the amount outstanding on December 31, 2007.

The following table is a geographic breakdown of the accounts receivable:

	2007	2006
Canada	9.1%	9.2%
USA	34.4%	52.1%
Asia Pacific	11.3%	18.7%
Europe, Middle East, Africa and India	27.6%	8.3%
Latin America	17.6%	11.7%

Allowance for doubtful accounts and bad debts

The Company reviews its outstanding receivables and if deemed appropriate reserves for old and long outstanding receivables. Based on such review, $1,892,084 was reserved as bad debts as at December 31, 2007 compared to $872,660 at December 31, 2006. This reserve relates to fourteen customers and will be reversed should these amounts be collected in following periods. During 2007, the Company collected approximately $550,000 of the allowance provided at

December 31, 2006. This amount has been adjusted to the current provision for bad debts at December 31, 2007. As discussed earlier, the Company is rationalizing its dealer network and culling the one-off dealers that have proven to be poor choices made in the past.

Critical Accounting Policies and Estimates

General

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are based upon management's historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates.

Revenue Recognition

Revenue is recognized when the Company's product is shipped, the title is transferred and collection is reasonably assured.

Substantially all the revenue earned is the result of equipment sales. Revenue with respect to the performance of services is recognized when the services are performed and collection is reasonably assured.

The Company uses an indirect distribution strategy whereby substantially all of the Company's revenues are earned through independent dealers and distributors and original equipment manufacturer (OEM) partners. The dealers and OEM's are responsible for installation and after sales service to the end user. Once the equipment is shipped and title has transferred to the dealer or OEM (FOB Company shipping point), the Company does not have any contractual obligation to ensure the equipment's proper installation and functioning. Deposits received prior to shipment are reflected as customer deposits.

Valuation of Intangible Assets

The Management assesses the impairment of identifiable intangibles, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are stated at cost less accumulated amortization and are comprised of licenses, patents and deferred development costs. Unforeseen events, changes in circumstances and market conditions, and material differences in the value of intangible assets due to changes in estimates of future cash flows could affect the fair value of the Company's assets and require an impairment charge. Intangible assets are reviewed quarterly to determine if any events have occurred that would warrant further review. "Patents" include all costs necessary to acquire intellectual property such as patents and registered trademarks, as well as legal costs arising out of litigation relating to the assertion of any Company-owned patents.

Income taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, current income taxes are recognized for the estimated income tax payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting basis of assets and liabilities and the benefit of losses and other deductions carried forward for tax purposes. Future income tax assets are recognized when it is more likely than not, the tax deductions and loss carry forwards will be utilized. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the date of enactment or substantive enactment.

As at December 31, 2007 the Company has over 18 million dollars of tax losses and a significant amount of other tax pools.

Financial Instruments

The Company is exposed to fluctuations in interest rates and currency exchange rates. The Company, when appropriate, may utilize financial instruments to manage its exposure to these risks.

(a) Interest rate risk

The Company is exposed to changes in interest rates as a result of the demand loan, bearing interest of the Company's lenders' prime rate.

(b) Foreign currency risk

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar, and other currencies with respect to assets, liabilities, sales and purchases. The Company monitors fluctuations and takes action, if deemed necessary to mitigate its risks.

On January 6, 2006, the Company entered into a forward foreign exchange contract for 19.7 million Japanese Yen at an exchange rate of 112.99 and maturing on January 16, 2007. As at December 31, 2006, the contract resulted in an unrealized loss of $8,859. This amount has been grouped within payables and accruals on the consolidated balance sheet and netted against the foreign exchange gain on the consolidated statement of operations and deficit. As at December 31, 2007, there were no outstanding contracts.

On January 23, 2008, the Company entered into a forward foreign exchange contract for US$5 million at an exchange rate of 1.028 and maturing on March 31, 2008.

(c) Credit risk

Accounts receivable include amounts receivable for normal terms and extended terms, which are generally made to credit worthy purchasers. The Company uses an indirect distribution strategy whereby substantially all of the Company's revenues are earned through dealers,

distributors and OEM partners. The Company does not usually sell to the end user and as such has limited recourse in collecting any delinquent balances. In cases where collection is in question, the Company has the ability to remotely disable the equipment (in cases where an end user has not paid), not provide any warranty support or warranty parts to a dealer that has not paid, remove the dealer as qualified IDC dealer as well as any and all legal recourse measures. Accordingly, the Company views credit risks on these amounts as low and as normal course of business

The Company is exposed to losses in the event of non-performance by counter-parties to these consolidated financial instruments. The Company deals with major institutions and believes these risks are minimal.

Risks and uncertainties

In the normal course of business the Company's operations are influenced by a number of internal and external factors and are exposed to risks and uncertainties that can affect its business, financial condition and operating results. The activities of the Company are subject to ongoing operational risks including the performance of key suppliers, product performance, and government and other industry regulations and reliance on information systems, all of which may affect the ability of the Company to meet its obligations. While management believes its innovation and technology make it a leader in the industry, revenue and results may be affected if products are not accepted in the market place, are not approved by regulatory authorities, or if products are not brought to market in a timely manner.

Ability to Manage Future Growth

Future growth, if any, may cause a significant strain on the Company's management and its operational, financial, human and other resources. The Company's ability to manage growth effectively will require it to implement and improve operational, financial, manufacturing and management information systems and to expand, train, manage and motivate employees. These demands may require the addition of management and other personnel and the development of additional expertise. Any increase in resources devoted to research, product development and marketing and sales efforts without a corresponding increase in operational, financial, manufacturing and management information systems could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth.

UPDATE ON REGULATORY AND FINANCIAL REPORTING MATTERS

New Accounting Pronouncements

CHANGE IN ACCOUNTING POLICIES

As of January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1506, Accounting Changes; Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges.

Accounting changes

CICA Section 1506 provides expanded disclosures for changes in accounting policies, accounting estimates and correction of errors. Under the new standard, accounting changes are applied retrospectively unless otherwise permitted or where impractical to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information. The application of this revised standard did not have a material impact on the financial statements.

Comprehensive income

CICA Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income and within other comprehensive income (loss) ("OCI"). It includes unrealized gains and losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges. Upon adoption of Section 1530, the Company incorporated the new required statement of comprehensive income by creating a "Statement of Operations, Comprehensive Loss and Deficit". The application of this revised standard did not result in OCI being different from net loss for the period presented. Should the Company recognize any OCI in the future, the cumulative changes in OCI would be recognized in accumulated other comprehensive income which would be presented as a new category within shareholders' equity on the balance sheet.

Financial instruments

CICA Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be recognized and presented. All financial instruments have been classified into one of the following five categories: 1) held-to-maturity; 2) loans and receivables; 3) other financial liabilities; 4) available-for-sale; and 5) held-for-trading.

Subsequent measurement and recognition of changes in the fair value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest method of amortization.
- Available-for-sale financial assets are measured at fair value. Unrealized gains and losses are included in OCI.
- Held for trading financial instruments are measured at fair value. All gains and losses are included in net income in the period in which they arise.

- All derivative financial instruments are classified as held for trading and are measured at fair value. All gains and losses are included in net income in the period in which they arise.

The adoption of this standard had no significant impact on the consolidated financial statements.

Hedging

CICA Section 3865 provides alternative treatments to Section 3855 for entities who choose to designate qualifying transactions as hedges for accounting purposes.

The Company is exposed to market risks resulting from fluctuations in foreign exchange in the normal course of its business. The Company may use a variety of instruments to manage these exposures. The Company does not enter into financial instruments for trading or speculative purposes. The Company has not applied hedge accounting and therefore, the standard had no impact on the consolidated financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

As of January 1, 2008, the Company will be required to adopt two new CICA standards; Section 3862 Financial Instruments – Disclosures; Section 3863 Financial Instruments – Presentation, which will replace Section 3861 Financial Instruments – Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The Company is currently assessing the required disclosures for its consolidated financial statements.

As of January 1, 2008, the Company will be required to adopt CICA Section 1535, Capital Disclosures, which will require disclosure of the Company's objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements. The Company is currently assessing the required disclosures for its consolidated financial statements.

As of January 1, 2008, the Company will be required to adopt CICA Section 3031, Inventories, which provides guidance on the measurement and disclosure requirements for inventories. The new standard reduces the number of alternatives for measurement of inventories to first-in-first-out and weighted average; narrows the permitted costing alternatives; requires reversal of write-downs to net realizable value when there is a subsequent increase in the net realizable value of inventories and enhances financial statement disclosures. The Company is currently assessing the impact on its consolidated financial statements.

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"), effective January 1, 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

Internal Control Reporting

(a) Multilateral Instrument 52-109

Canadian Securities Administrator ("CSA") has expanded MI 52-109 to require all reporting issuers to certify in their annual CEO and CFO certifications that they have evaluated the effectiveness of the issuer's internal control over financial reporting. Issuers will be required to disclose, in their annual MD&A their conclusions about the effectiveness of internal controls over

financial reporting as of the end of the financial year based on such evaluation. For years ending on or after June 29, 2006, issuers are required to certify that the issuer has designed internal controls over financial reporting (versus evaluating the effectiveness of them) and disclose in the MD&A material changes in internal controls over financial reporting that have occurred in the last quarter. On February 9, 2007, the CSA issued notice 52-317 proposing that the certification regarding the evaluation of effectiveness of internal controls over financial reporting would apply in respect of financial years ended on or after June 30, 2008.

(b) Disclosure Controls and Procedures Related to Financial Reporting

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to our management as appropriate to allow timely disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of December 31, 2007, that the Company's disclosure controls and procedures are operating effectively to provide reasonable assurance that material information related to the Company are made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

(c) Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the presentation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and Chief Financial Officer have assessed the design of internal control over financial reporting as at December 31, 2007 and during the process, they have identified certain weaknesses in internal controls over financial reporting. The weaknesses in the Company's internal control over financial reporting, discussed below, result in a more than remote likelihood that a material misstatement may not be prevented or detected on a timely basis.

There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting other than:

- Both the Chief Operating Officer and President & Chief Executive Officer are no longer with the Company and a new President & Chief Executive Officer and Senior Vice-President Operations have been hired;
- Due to the size of the Company and limited staff it is not feasible to achieve complete segregation of incompatible duties.

The weakness in the Company's internal controls over financial reporting, result in a more than likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors work to mitigate the risk of a material misstatement in financial reporting. However, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement

Outlook

The Company's status as an organization with commercial revenues makes the Company more attractive to a larger base of potential shareholders, thereby improving Company's ability to access capital markets to fund growth. Moreover, management believes that the significant progress that the Company has made in gaining the acceptance of leading individuals and institutions in the digital radiology sector for its product makes the Company's proprietary technology a valuable asset.

The Board of Directors believes that it has taken significant steps to improve the future stability and profitable growth of the Company and new management has implemented many operational and financial improvements. Management believes that the long term benefits of these changes significantly outweigh the shorter term negative impact.

Auditors' Report

To the Shareholders of Imaging Dynamics Company Ltd.

We have audited the consolidated balance sheets of Imaging Dynamics Company Ltd. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) *"Grant Thornton LLP"*

Grant Thornton LLP

Chartered Accountants

Calgary, Alberta

March 7, 2008

Imaging Dynamics Company Ltd.
Consolidated Balance Sheets

As at December 31		2007		2006
Assets				
Current Assets				
Cash and cash equivalents	$	**1,460,554**	$	5,901,192
Receivables (Note 4)		**12,219,209**		21,222,060
Inventory		**14,142,710**		16,556,720
Prepaids and deposits		**1,100,558**		930,053
		28,923,031		44,610,025
Property, plant and equipment (Note 5)		**1,880,932**		1,710,938
Intangible assets (Note 6)		**244,912**		278,511
Deferred development costs (Note 7)		**-**		782,917
	$	**31,048,875**	$	47,382,391

Liabilities and Shareholders' Equity

		2007		2006
Current Liabilities				
Short-term borrowing (Note 8)	$	**1,260,244**	$	4,297,033
Payables and accruals		**14,396,290**		15,209,388
Customer deposits		**345,140**		580,890
Current portion of long-term debt (Note 9)		**45,013**		56,000
Warranty liability		**1,098,287**		817,873
		17,144,974		20,961,184
Long-term debt (Note 9)		**-**		14,013
Deferred lease inducement (Note 10)		**24,800**		49,600
		17,169,774		21,024,797
Shareholders' Equity				
Share capital (Note 11)		**65,983,374**		65,466,454
Contributed surplus (Note 12)		**4,743,668**		3,473,709
Deficit		**(56,847,941)**		(42,582,569)
		13,879,101		26,357,594
	$	**31,048,875**	$	47,382,391

Description of business (Note 1)
Commitments and contingencies (Note 21)

On behalf of the Board:

(Signed) *"M. Thomas Boon"*
M. Thomas Boon, President & CEO

(Signed) *"Garry Zurowski"*
Garry Zurowski, Director

The accompanying notes are an integral part of these consolidated financial statements.

Imaging Dynamics Company Ltd.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the year ended December 31	2007	2006
Revenues, net	**$ 32,446,401**	$ 39,030,402
Cost of goods sold	**(20,769,086)**	(24,983,024)
Gross profit	**11,677,315**	14,047,378
Expenses		
Sales and marketing	**7,941,338**	9,192,053
General and administrative	**4,736,341**	3,870,636
Production and manufacturing	**1,650,895**	1,847,623
Research and development	**2,636,822**	2,360,160
Foreign exchange loss (gain)	**1,347,633**	(161,825)
Warranty	**693,628**	890,433
Stock-based compensation (Note 12)	**1,338,311**	1,593,263
Bad debts	**1,814,953**	1,094,339
Amortization of property, plant and equipment	**685,004**	398,722
Amortization of deferred development costs	**782,917**	484,769
Amortization of intangible assets	**38,805**	35,837
Interest	**409,450**	329,725
	24,076,097	21,935,735
Loss before interest and other items	**(12,398,782)**	(7,888,357)
Inventory write down	**(1,975,764)**	(4,776,213)
Deferred development costs write down (Note 7)	**-**	(1,663,507)
Interest and other income	**109,174**	321,231
Net loss and comprehensive loss	**$ (14,265,372)**	$ (14,006,846)
Net loss per share Basic and diluted	**$ (0.24)**	$ (0.25)
Deficit, beginning of year	**$ (42,582,569)**	$ (28,575,723)
Net loss	**(14,265,372)**	(14,006,846)
Deficit, end of year	**$ (56,847,941)**	$ (42,582,569)

The accompanying notes are an integral part of these consolidated financial statements.

Imaging Dynamics Company Ltd.

Consolidated Statement of Cash Flows

For the year ended December 31	2007	2006
Increase (decrease) in cash and cash equivalents are as follows:		
Cash flows from operating activities		
Net loss	$ (14,265,372)	$ (14,006,846)
Items not affecting cash		
Amortization of deferred lease inducement	(24,800)	(24,800)
Amortization	1,506,726	919,328
Deferred development costs write down	-	1,663,507
Stock-based compensation	1,338,311	1,593,263
Warranty	280,414	352,322
	(11,164,721)	(9,503,226)
Change in non-cash working capital (Note 16)	10,197,508	(4,011,132)
	(967,213)	(13,514,358)
Cash flows from financing activities		
Proceeds from share issuances, net	448,568	14,376,926
Short-term borrowing, net	(3,036,789)	1,390,943
Repayment of long-term debt	(25,000)	(25,000)
	(2,613,221)	15,742,869
Cash flows used in investing activities		
Deferred development costs additions	-	(1,182,349)
Intangible asset additions	(5,206)	(20,604)
Property, plant and equipment additions	(854,998)	(791,739)
	(860,204)	(1,994,692)
Net change in cash and cash equivalents	(4,440,638)	233,819
Cash and cash equivalents		
Beginning of year	5,901,192	5,667,373
End of year	$ 1,460,554	$ 5,901,192

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of business

Imaging Dynamics Company Ltd. (the "Company") is a public company incorporated under the laws of the Province of Alberta. The Company is listed on the Toronto Stock Exchange, trading under the symbol "IDL".

The Company's technology produces digital diagnostic images. Its purpose is to replace the need for film and chemical film processing as well as the storage and retrieval costs normally associated with traditional X-ray technology.

2. Significant accounting policies

(a) Basis of presentation

These financial statements consolidate the accounts of the Company and its wholly-owned subsidiaries –

IDC USA, Inc., IDC Europe B.V., and 1370509 Alberta Inc. All inter-company account balances and transactions have been eliminated.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. For the year ended December 31, 2007, the Company has a net loss of $14,265,372 ($14,006,846 for the year ended December 31, 2006) and a negative cash flow from operating activities of $11,164,721 ($9,503,226 for the year ended December 31, 2006). As a result of recurring losses over the Company's history, the Company has a deficit of $56.85 million as at December 31, 2007 ($42.58 million as at December 31, 2006).

The ability of the Company to continue as a going concern depends on raising additional financing and achieving profitable operations sufficient to meet all obligations. Although, in the opinion of Management the use of the going concern assumption is appropriate, there can be no assurance that any steps Management is taking will be successful.

These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

2. Significant accounting policies (Continued)

(b) Measurement uncertainty

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from and affect the results reported in these consolidated financial statements and those differences could be material.

Amounts recorded for stock-based compensation are based on management's estimates of share price volatility and the expected life of the options. Warranty accruals are based on management's estimates of a percentage of the cost of sales which incorporates past historical product warranty information. The amortization periods of deferred development costs are based on management's estimates of future sales of specific product lines and a reasonable time line for the products replacement. By their nature, these estimates are subject to uncertainty and the impact on the consolidated financial statements of future periods could be material.

(c) Cash and cash equivalents

Cash and cash equivalents consist of deposits in banks, redeemable deposits and short-term investments with initial maturities of three months or less.

(d) Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Inventory consists of raw material, purchased product and demonstration units.

(e) Property, plant and equipment and intangible assets

Property, plant and equipment are recorded at cost and amortized over their estimated useful lives at the following annual rates and methods.

Software	30% declining balance
Technical, lab and computer equipment	30% declining balance
Office equipment	20% declining balance
Tradeshow equipment	3 to 4 years straight-line
Leasehold improvements	Straight-line over lease term

Intangible assets are recorded at cost less accumulated amortization and are comprised of licenses and patents and amortized over a 10 year period on a straight line basis. Intangible assets are subject to annual impairment tests whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

2. Significant accounting policies (Continued)

(f) Revenue recognition

Revenue is recognized when the Company's product is shipped, the title is transferred and collection is reasonably assured.

Substantially all the revenue earned is the result of equipment sales. Revenue with respect to the performance of services is recognized when the services are performed and collection is reasonably assured.

The Company uses an indirect distribution strategy whereby substantially all of the Company's revenues are earned through independent dealers and distributors and original equipment manufacturer (OEM) partners. The dealers and OEM's are responsible for installation and after sales service to the end user. Once the equipment is shipped and title has transferred to the dealer or OEM (FOB Company shipping point), the Company does not have any contractual obligation to ensure the equipment's proper installation and functioning. Deposits received prior to shipment are reflected as deferred revenue.

(g) Research and development

Research costs are expensed as incurred. Development costs are expensed unless they meet certain criteria related to technical, financial and market feasibility, in which case they are deferred and amortized over 3 to 4 years on a straight line basis commencing with commercial production.

(h) Foreign currency

Transactions and non-monetary balances denominated in a foreign currency are translated into Canadian dollars using the exchange rates at the dates of the transactions. Monetary balances are translated using the rate at the date of the balance sheet. The accounts of the Company's foreign subsidiaries' are considered integrated and therefore translated into Canadian dollars under the temporal method of accounting whereby monetary items are translated at exchange rates in effect at the balance sheet date and non-monetary items translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the statement of operations and deficit.

2. Significant accounting policies (Continued)

(i) Stock-based compensation plan

The Company has a stock option plan that is described in note 13. The fair value of any stock options granted to directors, officers and employees is recorded as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of the stock-based compensation is determined using the Black Scholes option pricing model and management's assumptions as disclosed in note 13. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(j) Financial instruments

The financial instruments recognized on the Company's balance sheet approximates their estimated fair values, therefore no adjustments were required upon adoption of the new standard. Cash and cash equivalents were classified as held for trading and receivables were classified as loans and receivables. All financial liabilities were classified as other liabilities.

The Company uses financial instruments for non-trading purposes to manage fluctuations in foreign currency exchange rates, as described in Note 18. In accordance with CICA Section 3855 the Company accounts for all derivative financial instruments using the fair value accounting method.

(k) Income taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, current income taxes are recognized for the estimated income tax payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting basis of assets and liabilities and the benefit of losses and other deductions carried forward for tax purposes. Future income tax assets are recognized when it is more likely than not, the tax deductions and loss carry forwards will be utilized. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the date of enactment or substantive enactment.

2. Significant accounting policies (Continued)

(l) Warranty

Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information relating to the nature, frequency and average cost of warranty claims. Claims are monitored quarterly and adjustments to estimates are made based on updated historical information.

(m) Per share amounts

Basic net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding for the year. Diluted net loss per common share is computed by dividing net loss, as adjusted, by the diluted weighted average number of common shares outstanding for the year. In the calculation of diluted per share amounts, options under the stock option plan are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. In net loss per share situations, the diluted per share amount is the same as that for basic, as all factors are anti-dilutive.

(n) Future accounting pronouncements

As of January 1, 2008, the Company will be required to adopt two new CICA standards; Section 3862 Financial Instruments – Disclosures; Section 3863 Financial Instruments – Presentation, which will replace Section 3861 Financial Instruments – Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The Company is currently assessing the required disclosures for its consolidated financial statements.

As of January 1, 2008, the Company will be required to adopt CICA Section 1535, Capital Disclosures, which will require disclosure of the Company's objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements. The Company is currently assessing the required disclosures for its consolidated financial statements.

As of January 1, 2008, the Company will be required to adopt CICA Section 3031, Inventories, which provides guidance on the measurement and disclosure requirements for inventories. The new standard reduces the number of alternatives for measurement of inventories to first-in-first-out and weighted average; narrows the permitted costing alternatives; requires reversal of write-downs to net realizable value when there is a subsequent increase in the net realizable value of inventories and enhances financial statement disclosures. The Company is currently assessing the impact on its consolidated financial statements.

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"), effective January 1, 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

3. Change in accounting policies

As of January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1506, Accounting Changes; Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges.

Accounting changes

CICA Section 1506 provides expanded disclosures for changes in accounting policies, accounting estimates and correction of errors. Under the new standard, accounting changes are applied retrospectively unless otherwise permitted or where impractical to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information. The application of this revised standard did not have a material impact on the financial statements.

Comprehensive income

CICA Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income and within other comprehensive income (loss) ("OCI"). It includes unrealized gains and losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges. Upon adoption of Section 1530, the Company incorporated the new required statement of comprehensive income by creating a "Statement of Operations, Comprehensive Loss and Deficit". The application of this revised standard did not result in OCI being different from net loss for the period presented. Should the Company recognize any OCI in the future, the cumulative changes in OCI would be recognized in accumulated other comprehensive income which would be presented as a new category within shareholders' equity on the balance sheet.

Financial instruments

CICA Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be recognized and presented. All financial instruments have been classified into one of the following five categories: 1) held-to-maturity; 2) loans and receivables; 3) other financial liabilities; 4) available-for-sale; and 5) held-for-trading.

Subsequent measurement and recognition of changes in the fair value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest method of amortization.
- Available-for-sale financial assets are measured at fair value. Unrealized gains and losses are included in OCI.
- Held for trading financial instruments are measured at fair value. All gains and losses are included in net income in the period in which they arise.
- All derivative financial instruments are classified as held for trading and are measured at fair value. All gains and losses are included in net income in the period in which they arise.

3. Change in accounting policies (Continued)

The adoption of this standard had no significant impact on the consolidated financial statements.

Hedging

CICA Section 3865 provides alternative treatments to Section 3855 for entities who choose to designate qualifying transactions as hedges for accounting purposes.

The Company is exposed to market risks resulting from fluctuations in foreign exchange in the normal course of its business. The Company may use a variety of instruments to manage these exposures. The Company does not enter into financial instruments for trading or speculative purposes. The Company has not applied hedge accounting and therefore, the standard had no impact on the consolidated financial statements.

4. Receivables

	2007	2006
Trade receivables	$ 11,825,584	$ 20,506,715
GST and other	393,625	715,345
	$ 12,219,209	$ 21,222,060

Allowance for doubtful accounts of $1,892,084 (2006 – $872,660) has been netted against trade receivables. During the year, the Company collected $550,000 of the allowance provided in 2006. This amount has been adjusted to the current provision for bad debts.

5. Property, plant and equipment

December 31, 2007	Cost	Accumulated amortization	Net book value
Technical, lab and computer equipment	$ 1,789,276	$ 1,309,603	$ 479,673
Leasehold improvements	89,628	24,744	64,884
Office equipment	509,383	274,066	235,317
Software	649,967	169,944	480,023
Tradeshow equipment	1,099,100	478,065	621,035
	$ 4,137,354	$ 2,256,422	$ 1,880,932

December 31, 2006	Cost	Accumulated amortization	Net book value
Technical, lab and computer equipment	$ 1,767,884	$ 1,140,404	$ 627,480
Leasehold improvements	38,016	5,845	32,171
Office equipment	496,574	217,129	279,445
Software	374,610	40,909	333,701
Tradeshow equipment	605,272	167,131	438,141
	$ 3,282,356	$ 1,571,418	$ 1,710,938

6. Intangible assets

December 31, 2007	Cost	Accumulated amortization	Net book value
Digital X-ray technology patents and licenses	$ 391,954	$ 147,042	$ 244,912

December 31, 2006	Cost	Accumulated amortization	Net book value
Digital X-ray technology patents and licenses	$ 386,748	$ 108,237	$ 278,511

7. Deferred development costs

December 31, 2007		Cost		Accumulated amortization		Net book value
Xplorer tools, dies, molds and design	$	1,121,040	$	1,121,040	$	-
Xaminer tools, dies, molds and design		2,010,632		2,010,632		-
	$	3,131,672	$	3,131,672	$	-

December 31, 2006		Cost		Accumulated amortization		Net book value
Xplorer tools, dies, molds and design	$	1,121,040	$	840,780	$	280,260
Xaminer tools, dies, molds and design		2,010,632		1,507,975		502,657
	$	3,131,672	$	2,348,755	$	782,917

Included in the accumulated amortization is one time write down of $Nil (2006 – $1,663,507) as a result of introducing new product line during 2007. The balance of the deferred development costs were fully amortized during 2007.

8. Credit facilities

The Company has a revolving credit facility with a Canadian Chartered Bank for $4.1 million, which can be utilized as overdraft or in the form of banker's acceptances. The facility allows for a borrowing limit up to the aggregate of 75% of accounts receivable acceptable to the bank and 90% of Export Development Canada insured accounts. Interest is charged at the bank's prime plus 2% on overdraft with fees on letters of guarantee and banker's acceptances quoted at the time of issue plus a stamping fee of 3.5% per annum.

The agreement also includes a foreign exchange demand revolving line of US$420,000. The Company is entitled to enter into forward exchange contracts up to an aggregate of US$2,000,000, with a maximum of 12 months, of which, US$420,000 is available through the line of credit.

The revolving credit facility is secured by a general security agreement, first ranking from the Company in favor of the bank, assignment/endorsement by the Company to the bank of all insurance proceeds and security over cash, credit balances and deposit endorsements.

As at December 31, 2007, $1,260,244 (2006 – $4,297,033) remained outstanding.

9. Long-term debt

		2007		2006
Unsecured loan, non-interest bearing and payable in annual installments equal to the lesser of 5% of gross sales or $25,000 per annum	$	**14,013**	$	39,013
Unsecured loan, non-interest bearing and payable in annual installments equal to 4% of gross sales		**31,000**		31,000
		45,013		70,013
Less current portion		**(45,013)**		(56,000)
	$	**-**	$	14,013

10. Deferred lease inducement

During 2005, the Company agreed to remove a condition from its existing office lease and in compensation for this action, the landlord transferred title of furniture and equipment located in the premises to the Company. The fair market value of the furniture and equipment was appraised at $124,000. This amount has been recorded as a capital asset and as a deferred lease inducement on the balance sheet. The lease inducement will be recognized over the life of the lease. To date, $99,200 (2006 - $74,400) has been amortized and recorded as a reduction of rental expense included within general and administrative on the consolidated statement of operations and deficit.

11. Share capital

a) Authorized

An unlimited number of common shares
Non-voting redeemable preferred shares

b) Issued and outstanding

	December 31 2007			December 31 2006		
	Number of Shares		**Amount**	Number of Shares		Amount
Beginning of year	**58,460,987**	**$**	**65,466,454**	53,693,504	$	50,898,031
Issued for cash	**-**		**-**	4,285,715		15,000,002
Exercise of options	**839,336**		**516,920**	481,768		598,490
Share issue costs	**-**		**-**	-		(1,030,069)
End of year	**59,300,323**	**$**	**65,983,374**	58,460,987	$	65,466,454

11. Share Capital (Continued)

c) On April 12, 2006, the Company closed an agreement with a syndicate of underwriters to sell 2,857,143 special warrants at an issue price of $3.50 per warrant for aggregate gross proceeds of $10,000,000. As part of the agreement, the Company has granted the underwriters an option to purchase 1,428,572 additional special warrants at an issue price of $3.50 per warrant for aggregate gross proceeds of $5,000,002. Each special warrant is exercisable into one common share of the Company with no additional cost. On January 13, 2006, the syndicate of underwriters exercised their option to purchase the additional special warrants.

12. Contributed surplus

The following table presents the reconciliation of contributed surplus with respect to stock-based compensation:

	2007	2006
Beginning of year	**$ 3,473,709**	$ 2,071,943
Stock-based compensation expense	**1,338,311**	1,593,263
Estimate of fair value at date of grant of options exercised	**(68,352)**	(191,497)
End of year	**$ 4,743,668**	$ 3,473,709

13. Stock-based compensation

The Company has established a stock-based compensation plan for its directors, officers, employees, consultants and other key personnel. Under the Stock Option Plan, the Company may grant up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option is determined by the market price of the Company's stock on the date of the grant and an option's maximum term is 5 years. Options generally vest over three to five years. As at December 31, 2007, 587,814 (2006 – 152,445) options are reserved for granting.

Under the stock option plan, the following options were granted by the Company and are outstanding as at the following dates:

	December 31 2007			December 31 2006		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Options outstanding,						
Beginning of year	**5,693,654**	**$**	**1.81**	5,205,668	$	1.47
Granted	**1,222,100**	**$**	**1.00**	1,594,000	$	2.88
Exercised	**(839,336)**	**$**	**0.53**	(481,768)	$	0.84
Cancelled	**(734,200)**	**$**	**2.38**	(624,246)	$	2.44
End of year	**5,342,218**	**$**	**1.75**	5,693,654	$	1.81
Options exercisable at end of year	**3,325,153**	**$**	**1.54**	3,413,546	$	1.20

The following table summarizes information about the Company's Stock option plan as at December 31, 2007:

	Options Outstanding				Options Exercisable		
Range of exercise price in dollars	Number Outstanding	Weighted Average Remaining Contractual Life (Months)		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
0.01 to 0.99	1,347,749	33.1	$	0.48	951,149	$	0.36
1.00 to 1.99	1,930,969	33.2	$	1.59	1,540,669	$	1.62
2.00 to 2.99	1,824,500	44.2	$	2.58	748,667	$	2.60
3.00 to 3.99	174,000	40.9	$	3.50	63,001	$	3.46
4.00 to 4.99	27,000	43.9	$	4.62	9,000	$	4.62
5.00 to 5.99	38,000	42.0	$	5.20	12,667	$	5.20
	5,342,218	37.3	$	1.75	3,325,153	$	1.54

13. Stock-based compensation (Continued)

The follow table summarizes the assumptions used in the Black-Scholes option-pricing model for purposes of the option calculations:

	2007	2006
Dividend yield	**0.0%**	0.0%
Expected volatility	**122.3%**	111.2%
Risk-free interest rate	**4.2%**	3.9%
Expected life (years)	**5.0**	5.0
Weighted average fair value of options	**$ 0.835**	$ 2.294

14. Income taxes

The income tax expense differs from the amounts which would be obtained by applying the expected income tax rate of 32.12% (2006 – 32.12%) as follows:

	2007	2006
Computed expected tax expense (recovery)	**$ (4,582,037)**	$ (4,498,999)
Stock-based compensation	**429,865**	511,756
Use of future assets not previously recognized	**-**	-
Change in valuation allowance and tax rate changes	**4,152,172**	3,987,243
	$ -	$ -

The components of the Company's future income tax assets at December 31 are as follows:

	2007	2006
Property, plant and equipment	**$ 523,772**	$ 366,672
Intangible assets	**6,270,525**	56,161
Deferred development costs	**-**	(227,046)
Share issues costs	**225,480**	382,501
Non-capital losses	**4,594,318**	9,187,354
Other	**448,816**	22,809
Research and development costs	**1,064,961**	1,864,772
Warranty	**274,572**	237,183
	13,402,444	11,890,406
Valuation allowance	**(13,402,444)**	(11,890,406)
	$ -	$ -

14. Income taxes (Continued)

The Company has non-capital losses for income tax purposes in Canada of approximately $17,654,000 which are available to be applied against future years' taxable income. The benefit of these non-capital losses has not been recognized in the consolidated financial statements. These losses will expire as follows:

2010	836,000
2014	6,076,000
2026	10,742,000
	$ 17,654,000

As at December 31, 2007, the Company has net operating losses for income tax purposes in the Netherlands and the U.S. of approximately $880,000 (2006 - $900,000) and $79,000 (2006 - $Nil) respectively. The benefit of these non-capital losses has not been recognized in the consolidated financial statements.

During the year, the Company restructured ownership of its intellectual property which resulted in the utilization of certain non-capital losses and creation of un-utilized capital cost ("UCC") pools, which is subject to review and assessment by Canada Revenue Agency ("CRA"). There is no guarantee that the non-capital loss utilization and the creation of UCC pools will be approved by CRA. Should CRA not approve this transaction, the Company will not have any tax liability other than the expiry of non-capital losses and a corresponding reduction in UCC pools.

15. Per share amounts

The following table presents the reconciliation between basic and diluted income per share:

	2007	2006
Net (loss) Income	$ (14,265,372)	$ (14,006,846)
Weighted average number of common shares outstanding:		
Basic	58,971,360	57,043,359
Impact of stock options assumed exercised	1,016,711	2,,841,275
Diluted	59,988,071	59,884,634
Per share amounts		
Basic and diluted	$ (0.24)	$ (0.25)

In calculating diluted common share amounts for the year ended December 31, 2007, the Company excluded 3,902,858 options (2006 – 258,949) because the exercise price was greater than the average market price of its common shares in that year.

16. Supplementary cash flow information

Change in non-cash working capital:

	2007	2006
Receivables	$ **9,002,851**	$ (5,168,115)
Inventory	**2,414,010**	(9,645,848)
Prepaids and deposits	**(170,505)**	2,355,654
Payables and accruals	**(813,098)**	8,501,603
Customer deposits	**(235,750)**	(54,426)
	$ **10,197,508**	$ (4,011,132)

Other information

	2007	2006
Interest paid	$ **409,450**	$ 329,725
Interest received	$ **246,757**	$ 183,649

Cash and cash equivalents is comprised of the following balances:

	2007	2006
Cash accounts	$ **1,460,554**	$ 3,412,584
Short-term deposits	**-**	2,488,608
	$ **1,460,554**	$ 5,901,192

17. Related party transactions

During the year, the Company had the following transactions with related parties. These transactions were measured at the exchange amounts that were the amount of consideration established and agreed upon by the related parties that in management's opinion approximated fair market value.

(a) Incurred consulting expenses in the amount of $Nil (2006 - $49,963) to a company with common directors, of which $Nil (2006 - $36,007) is included in payables and accruals. These costs have been included in general and administrative expenses on the consolidated statements of operations.

(b) The Company paid legal costs in the amount of $21,516 (2006 - $216,414) to a Director's law firm, of which $Nil (2006 - $26,828) is included in payables and accruals. These costs have been included in general and administrative expenses on the consolidated statements of operations.

(c) Incurred consulting expenses in the amount of $Nil (2006 - $45,800) to a company with common management, of which $Nil (2006 - Nil) is included in payables and accruals. These costs have been included in research and development expenses on the consolidated statements of operations.

18. Financial instruments

The Company is exposed to fluctuations in interest rates and currency exchange rates. The Company, when appropriate, may utilize financial instruments to manage its exposure to these risks.

(a) Interest rate risk

The Company is exposed to changes in interest rates as a result of the demand loan, bearing interest of the Company's lenders' prime rate.

(b) Foreign currency risk

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar, and other currencies with respect to assets, liabilities, sales and purchases. The Company monitors fluctuations and takes action, if deemed necessary to mitigate its risks.

On January 6, 2006, the Company entered into a forward foreign exchange contract for 19.7 million Japanese Yen at an exchange rate of 112.99 and maturing on January 16, 2007. As at December 31, 2006, the contract resulted in an unrealized loss of $8,859. This amount has been grouped within payables and accruals on the consolidated balance sheet and netted against the foreign exchange gain on the consolidated statement of operations and deficit. As at December 31, 2007, there were no outstanding contracts.

On January 23, 2008, the Company entered into a forward foreign exchange contract for US$5 million at an exchange rate of 1.028 and maturing on March 31, 2008.

(c) Credit risk

Accounts receivable include amounts receivable for normal terms and extended terms, which are generally made to credit worthy purchasers. The Company uses an indirect distribution strategy whereby substantially all of the Company's revenues are earned through dealers, distributors and OEM partners. Most of the Company's distribution partners have income streams from various sources and have an established history of providing goods and services to the health care industry. The Company does not usually sell to the end user and as such has limited recourse in collecting any delinquent balances. In cases where collection is in question, the Company has the ability to remotely disable the equipment (in cases where an end user has not paid), not provide any warranty support or warranty parts to a dealer that has not paid, remove the dealer as qualified IDC dealer as well as any and all legal recourse measures. Accordingly, the Company views credit risks on these amounts as low and as normal course of business

The Company is exposed to losses in the event of non-performance by counter-parties to these consolidated financial instruments. The Company deals with major institutions and believes these risks are minimal.

19. Segmented information

The Company is organized into five sales geographic areas consisting of the United States, Asia/Pacific, Europe, Latin America and Canada. The Company sells through dealers and distributors in the United States and Canada and predominantly through OEM partners in Asia/Pacific, Europe and Latin America.

2007	**Asia Pacific**	**Canada**	**Europe**	**Latin America**	**United States**	**Total**
Revenue	**$ 6,881,589**	**$ 1,458,667**	**$ 3,671,312**	**$ 4,155,238**	**$ 16,279,595**	**$ 32,446,401**
Property, plant and equipment	**$ -**	**$ 1,879,590**	**$ 1,342**	**$ -**	**$ -**	**$ 1,880,932**

2006	Asia Pacific	Canada	Europe	Latin America	United States	Total
Revenue	$ 7,336,878	$ 1,272,161	$ 4,145,465	$ 3,625,398	$ 22,650,500	$ 39,030,402
Property, plant and equipment	$ -	$ 1,704,767	$ 6,171	$ -	$ -	$ 1,710,938

20. Significant customers and vendors

Two customers represented 20% of revenue during 2007 compared to 32% represented by two customers during 2006. These customers represented more then 10% of revenue in either year.

One vendor represented 24% of purchases during 2007 compared to 50% represented by two vendors during 2006. These vendors represented more than 10% of purchases in either year.

21. Commitments and contingencies

(a) The Company is committed to the following payments:

	Facility	Auto/Equipment	Product	Total
2008	$ 276,785	$ 55,162	$ 12,267,627	$ 12,599,574
2009	136,587	53,134	1,616,835	1,806,556
2010	-	36,624	-	36,624

Product commitments relate to contractual obligations entered into by the Company to secure production schedules of third party suppliers.

(b) Bank guarantee for US$148,700 was issued on July 24, 2007 in relation to an international tender contract. The bank guarantee will expire on December 31, 2010 on completion of the performance as per the terms of the contract.

(c) Bank guarantee for US$43,000 was issued on August 29, 2007 in relation to an international tender contract. The bank guarantee has expired on January 15, 2008.

(d) Bank guarantee for US$220,650 was issued on December 27, 2007 in relation to an international tender contract. The bank guarantee will expire on June 30, 2008 on completion of the performance as per the terms of the contract.

(e) The Company is involved in a legal claim associated with normal operations. This claim although unresolved at the current time, in management's opinion, is not expected to have a material impact on the financial position or results of operations of the Company. The Company has filed a counter claim to defend the statement of claim.

(f) A general security agreement has been issued by the Company to a Vendor which is secondary to the bank (see Note 8).

22. Comparative amounts

Certain comparative amounts have been reclassified to confirm with the current year's presentation.

Imaging Dynamics Company Ltd.

Shareholder Information

Head Office

Suite 151, 2340 Pegasus Way NE
Calgary, Alberta, Canada
T2E 8M5
Tel 403.251.9939
Fax 403.251.1771
info@imagingdynamics.com

www.imagingdynamics.com

Asia Pacific

Beijing Rep. Office Room 1007A
Jianguomenwai Bei Avenue
Beijing 100005, China
Tel 86.10.85192196
Fax 86.10.85192918

Europe

Victorialaan 15, 5213 JG
s-hertogenbosch,
The Netherlands
Tel 31.0.73.751.1742
Fax 31.0.73.751.1744

Directors

Jerry C. Cirino [1]
President and Chief Executive Officer
Heartland Information Services
Erwin Schwarz
Director of Diagnostic Imaging Services
Richard Barno [2]
President, Concord Corporation
Garry Zurowski ,CA[3]
Independent Consultant
John Cooper
President and Chief Executive Officer
EnerMAX Services
M. Thomas Boon
President and Chief Executive Officer
Imaging Dynamics Company Ltd.

[1] Chairman, Board of Directors
[2] Chairman, Compensation Committee
[3] Chairman, Audit Committee

Legal Counsel

Gowlings Lafleur Henderson LLP

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol: IDL

Executive

M. Thomas Boon
President and Chief Executive Officer
Swapan Kakumanu, CGA, ACA, ACWA
Chief Financial Officer
Robin Winsor
Chief Technical Officer
Gregory Peterson
Corporate Secretary

Transfer Agent

Valiant Trust Company
Suite 310 – 66 4th Street SW
Calgary, AB T2P 1T1
Tel 403.233.2801
Fax 403.233.2857

Auditors

Grant Thornton LLP

Bankers

HSBC Bank Canada
First Calgary Savings & Credit Union

idc

IDC X-Series Technology. The New Generation of DR.

Suite 151, 2340 Pegasus Way NE, Calgary, AB, Canada T2E 8M5
Phone 403.251.9939 Fax 403.251.1771
investor@imagingdynamics.com | www.imagingdynamics.com